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Dr Andreas Barckow
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International Accounting Standards Board
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Canary Wharf, London E14 4HD
UNITED KINGDOM

(submitted via the IASB website)

RE: Exposure Draft; Business Combinations—Disclosures, Goodwill and Impairment Proposed amendments to IFRS 3 and IAS 36

Dear Andreas,

The Chartered Institute for Business Accountants (CIBA) appreciates the opportunity to comment on the IASB's Exposure Draft concerning the proposed amendments to Business Combinations—Disclosures, Goodwill and Impairment Proposed amendments to IFRS 3 and IAS 36. CIBA represents a diverse group of accounting professionals in South Africa, who are deeply committed to upholding the standards of financial reporting and transparency that are essential for the effective functioning of our financial markets. Our main goal is to help accountants improve their skills and uphold high standards in their work. We offer certifications, ongoing education, and uphold a code of conduct to ensure our members perform their best. As we reach out to our stakeholders, we are committed to maintaining honesty, responsibility, and openness in the accounting profession.

CIBA generally supports the proposed amendments aimed at enhancing the disclosure of information concerning the performance of strategic business combinations. We believe that these changes will significantly improve the quality of information available to users of financial statements, facilitating better assessment of management's stewardship and the strategic outcomes of significant acquisitions.

We will respond to the IASB questions on the Exposure draft in detail below.

Question 1—Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)

In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that:

- users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular, users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21).

- preparers of financial statements are concerned about the cost of disclosing that information. In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22).

Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost.

In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers' concerns about disclosing that information by proposing:

- to require this information for only a subset of an entity's business combinations—strategic business combinations (see question 2); and
- to exempt entities from disclosing some items of this information in specific circumstances (see question 3).

a) Do you agree with the IASB's proposal to require an entity to disclose information about the performance of a strategic business combination, subject to an exemption? Why or why not? In responding, please consider whether the proposals appropriately balance the benefits of requiring an entity to disclose the information with the costs of doing so.
b) If you disagree with the proposal, what specific changes would you suggest to provide users with more useful information about the performance of a business combination at a reasonable cost?

CIBA Response to Question 1

We support the IASB's proposal to require entities to share information about the performance of major business deals, known as strategic business combinations, while also allowing for some exceptions. This approach enhances transparency and accountability, which are critical for stakeholders who rely on accurate and detailed financial reports to make informed decisions.

The focus on strategic business combinations is particularly useful because it ensures that the information provided is relevant and significant, helping stakeholders understand how such major deals impact the company's direction and performance. By concentrating on these key acquisitions, the proposal also helps to manage the reporting burden on entities, ensuring they only provide details on the most impactful transactions.

Additionally, the option to not disclose certain sensitive information is a sensible addition. This exemption protects companies from potential competitive harm or legal issues that might arise from disclosing sensitive details. This flexibility shows a good balance between the need for transparency and the practical realities businesses face, ensuring that the costs associated with these disclosures are justified and do not outweigh the benefits.

In conclusion, we believe that this proposal, with its focus on significant deals and the option for exemptions, will improve the quality of financial reporting. This ensures that all stakeholders have access to essential information without overwhelming entities with excessive reporting requirements.

Question 2—Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity's acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations—a subset of material business combinations. A strategic business combination would be one for which failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy.

The IASB is proposing that entities identify a strategic business combination using a set of thresholds in IFRS 3—a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73).

The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70).

a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why?

b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?

CIBA Response to Question 2

We acknowledge and appreciate the IASB's efforts to improve the disclosure of strategic business combinations through the proposed threshold approach. After thorough consideration, we would like to express some concerns and suggestions regarding the implementation and effectiveness of these proposals.

Concerns About the Threshold Approach

While the intent to enhance transparency is commendable, we believe the existing framework of materiality already adequately guides entities in making disclosure decisions. Introducing an additional set of thresholds could complicate the disclosure process without necessarily adding substantial value. There is a risk that these new thresholds might inadvertently include transactions that do not genuinely influence the strategic direction of the entity, thereby diluting the focus on truly significant strategic changes.

Challenges with Quantitative and Qualitative Thresholds

The proposed quantitative thresholds seem to be set relatively low, which might lead to the inclusion of transactions that, while meeting these numerical criteria, do not substantially impact the entity's strategy, particularly in industries where asset values are less indicative of strategic significance. Additionally, comparing businesses at fair value including goodwill against those with assets recorded at historical cost may result in inconsistencies that do not accurately reflect the strategic importance of the acquisitions.

The qualitative thresholds proposed are subject to broad interpretation and may prove challenging to apply consistently across various entities and industries. The definition of terms such as 'major' in relation to changes in business lines or geographical expansion needs greater clarity to ensure that only strategic acquisitions are considered under these criteria.

Recommendations for Refinement

To address these concerns, we suggest the following modifications:

- Reevaluate and adjust quantitative thresholds to ensure they reflect the strategic impact more accurately across diverse business models and industries.
- Define qualitative thresholds more clearly, providing detailed guidance and examples to ensure consistent application and to truly capture strategic intent.
- Emphasize the primacy of materiality in determining the need for disclosures, potentially enhancing how materiality considerations are integrated with strategic impact assessments.

While we support the goals of the proposed amendments to increase the transparency of strategic business combinations, we believe that the threshold approach needs further refinement to avoid unnecessary complexity and ensure it meets stakeholder needs effectively. We recommend that the thresholds be carefully reviewed and adjusted to align closely with the strategic realities of modern business operations.

Question 3—Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)

The IASB is proposing to exempt an entity from disclosing some of the information that would be required applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers' concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107).

The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption.

a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns.

b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

CIBA Response to Question 3

We appreciate the efforts of the IASB in addressing the commercial sensitivity and litigation risks associated with disclosing information about strategic business combinations. While the intention behind the proposed exemptions is commendable, CIBA believes that the scope and applicability of these exemptions require further consideration to ensure they meet the needs of all stakeholders effectively.

Concerns Regarding the Scope of Exemptions

The proposed exemptions are intended to prevent the disclosure of information that could seriously harm an entity's ability to achieve its initial strategic objectives associated with a particular business combination. However, we believe this scope may be too restrictive. Strategic concerns often extend beyond the immediate goals of a specific acquisition. For instance, details like financial benchmarks or strategic planning metrics, if disclosed, could undermine an entity's position in future negotiations or competitive scenarios not directly tied to the acquisition's initial objectives. Therefore, we recommend broadening the exemption criteria to include protection against disclosing information that might jeopardize the entity's broader strategic or competitive stance.

Uniform Application and Auditability

Ensuring that the exemptions are applied consistently and are auditable presents a challenge. The subjective nature of what might 'seriously prejudice' an entity's interests could lead to varied interpretations and applications. To reduce this variability, CIBA suggests that the IASB provide additional concrete examples and clearer guidelines that reflect a range of scenarios, including interactions with competitors and other market participants. These examples should help clarify the threshold for applying exemptions and ensure a uniform understanding across different markets and regulatory environments.

Enhancing Clarity on Rare Usage

Aligning with practices from IAS 37, we propose that the IASB explicitly state that exemptions should be rare and used only in circumstances where the potential harm from disclosure is clear and significant. Such a clarification would align expectations and reduce the risk of entities applying exemptions too broadly, thereby maintaining the integrity and transparency desired in financial reporting.

Recommendations for Improvement

To effectively balance the need for transparency with the protection of sensitive business information, we recommend:

- Expanding the exemption criteria to consider the broader strategic implications of disclosure.
- Providing detailed, scenario-based guidance to assist preparers and auditors in making informed judgments about when exemptions are applicable.
- Clearly stating in the standards that the use of exemptions is expected to be rare, enhancing consistency and predictability in their application.

While CIBA supports the IASB's initiative to introduce exemptions, we advocate for modifications to ensure these exemptions are practical, clearly understood, and appropriately stringent to prevent overuse. By addressing these areas, the IASB will better support the needs of entities navigating the complexities of reporting strategic business combinations without compromising the overall transparency and reliability of financial disclosures.

Question 4—Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is reviewed by its key management personnel (see paragraphs BC110–BC114).

The IASB's proposals would require an entity to disclose this information for as long as the entity's key management personnel review the performance of the business combination (see paragraphs BC115–BC120).

The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel:

- do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so;

- stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and

- have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition.

a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination?

b) Do you agree that:
   (i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not?
   (ii) (ii) an entity should be required to disclose the information specified by the proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?

CIBA Response to Question 4

CIBA supports the IASB's proposal that entities should disclose information about strategic business combinations that are reviewed by the entity's key management personnel. This approach ensures that the disclosed information is significant to the entity's strategy and is actively used by management, providing stakeholders with insights into how management evaluates the success and contribution of these acquisitions. This alignment between what management monitors and what is disclosed to stakeholders supports transparency and informs investors about the management's stewardship of the entity's resources.

However, we acknowledge concerns from other professional bodies regarding the clarity of the proposal, particularly around the actions required when KMP do not start or stop reviewing the performance metrics within the specified time frames. To address this, we recommend that the IASB provide clearer definitions and examples that detail the expected disclosures in scenarios where there is a cessation or non-initiation of review by KMP. This clarification will help entities understand their reporting obligations and ensure consistency in how these rules are applied across different jurisdictions and industries.

We agree with the proposed duration of disclosure, which requires information to be reported as long as KMP are actively reviewing the performance of the strategic business combination. The two-year cut-off post-acquisition for monitoring, although somewhat arbitrary, is pragmatically chosen, reflecting a common integration period for acquisitions.

We recognize that the strategic benefits of some acquisitions may take longer than two years to fully materialize. Therefore, while we support the cut-off period for routine disclosures, we suggest that the IASB encourages entities to continue disclosing significant developments or outcomes related to strategic acquisitions beyond this period if they remain material to understanding the entity's performance and strategy.

CIBA supports the essence of the IASB's proposals to align disclosure with the information reviewed by key management personnel, as it enhances the relevance and usefulness of the disclosed information. Nevertheless, we recommend additional clarity and guidance on the implementation of these proposals to address any ambiguities and ensure that all entities can apply these standards effectively and consistently.

Enhanced guidance would particularly benefit entities in determining how to report when there are changes in the review status of strategic business combinations by KMP.

Question 5—Disclosures: Other proposals

The IASB is proposing other amendments to the disclosure requirements in IFRS 3.
These proposals relate to:

New disclosure objectives (proposed paragraph 62A of IFRS 3)

The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28).

Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)

The IASB proposes:

- to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy);
    - to require an entity to disclose for each category of synergies:
    - the estimated amounts or range of amounts of the expected synergies;
    - the estimated costs or range of costs to achieve these synergies; and
    - the time from which the benefits expected from the synergies are expected to start and how long they will last; and
- to exempt an entity from disclosing that information in specific circumstances.

See paragraphs BC148–BC163.

The strategic rationale for a business combination (paragraph B64(d) of IFRS 3)

The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165).

Contribution of the acquired business (paragraph B64(q) of IFRS 3)

The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes:

- to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project);
- to explain the purpose of the requirement but add no specific application guidance; and
- to specify that the basis for preparing this information is an accounting policy.

Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)

The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word 'major' from paragraph B64(i) of IFRS 3 and adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181).

Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3)

The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182–BC183).

Do you agree with the proposals? Why or why not?

CIBA Response to Question 5

New Disclosure Objectives

We support the addition of new disclosure objectives as proposed in paragraph 62A of IFRS 3. Clear objectives help ensure that entities understand the purpose behind the disclosures, leading to more meaningful information being reported.

Disclosure of Expected Synergies

While the idea of disclosing expected synergies is well-intentioned for transparency, we have concerns regarding the practical aspects of such disclosures:

- Auditability and Judgment: Estimating expected synergies involves a high degree of judgment, making it challenging to verify and audit these figures accurately within reasonable costs. The predictive nature of these disclosures could lead to significant discrepancies between expected and realized outcomes.

- User Relevance: Based on our understanding, there is scepticism about the utility of such forward-looking information, especially without a requirement to report on the realization of these synergies in subsequent periods.

We recommend that instead of mandating quantitative disclosures of expected synergies, the IASB could enhance the requirements for qualitative disclosures. This approach would allow entities to discuss the types of expected synergies without the need to quantify them prematurely.

Strategic Rationale for Business Combinations

We support the proposal to shift from disclosing the primary reasons for a business combination to discussing the strategic rationale. This change would provide stakeholders with deeper insights into how the acquisition aligns with the entity's broader strategic goals.

Contribution of the Acquired Business

Specifying that the profit or loss from the acquired business should be reported as operating profit or loss is a positive step towards consistency. However, we suggest that some level of guidance on how to implement this requirement would be beneficial to ensure uniform application across entities.

Classes of Assets Acquired and Liabilities Assumed

We agree with the proposal to enhance clarity by including pension and financing liabilities in the disclosures. This adjustment helps ensure that all significant liabilities are consistently considered in the financial statements.

Deleting Certain Disclosure Requirements

While we understand the intent to streamline disclosures, careful consideration is needed to ensure that useful information is not lost. Each deletion should be evaluated to confirm that it does not remove critical insights that contribute to the understanding of the business combination's impact.

In conclusion, CIBA recognizes the potential benefits of the proposed changes to IFRS 3 but advises caution particularly regarding the disclosure of expected synergies. We suggest focusing on qualitative information that can provide stakeholders with insights without the risks associated with auditing forward-looking, highly judgmental estimates. We appreciate the IASB's efforts to refine these disclosures and encourage continued consideration of the practical implications of these changes.

Question 6—Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36)

During the PIR of IFRS 3, the IASB heard concerns that the impairment test of cashgenerating units containing goodwill results in impairment losses sometimes being recognised too late.

Two of the reasons the IASB identified (see paragraphs BC188–BC189) for these concerns were:

- shielding; and
- management over-optimism.

The IASB is proposing amendments to IAS 36 that could mitigate these reasons (see paragraphs BC192–BC193).

Proposals to reduce shielding

The IASB considered developing a different impairment test that would be significantly more effective at a reasonable cost but concluded that doing so would not be feasible (see paragraphs BC190–BC191).

Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cashgenerating units (see paragraphs BC194–BC201).

Proposal to reduce management over-optimism

The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cashgenerating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36). The IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether an entity's assumptions are over-optimistic (see paragraph BC202).

a) Do you agree with the proposals to reduce shielding? Why or why not?

b) Do you agree with the proposal to reduce management over-optimism? Why or why not?

CIBA Response to Question 6

We carefully reviewed the proposed amendments to the impairment test as outlined in IAS 36, specifically targeting the issues of shielding and management over-optimism in impairment testing. These proposed changes are crucial for enhancing the accuracy and timeliness of impairment losses on cash-generating units containing goodwill.

(a) Proposals to Reduce Shielding

We support the proposed clarification on how goodwill should be allocated to cash-generating units (CGUs) as a sensible step towards reducing the shielding effect.

Shielding occurs when the impairment of underperforming assets is masked by the better performance of other assets within the same unit, delaying the recognition of impairment losses. Clarifying allocation procedures should help ensure that goodwill is not inappropriately spread across CGUs, which can obscure the true economic performance of these units.

Proper allocation is crucial for timely and accurate impairment testing. While the clarification is a positive development, we believe that further steps could enhance the effectiveness of these measures. Specifically, we suggest that the IASB could provide more detailed guidelines or examples that illustrate proper allocation methods across various scenarios and industries. This guidance would help entities apply these rules more consistently and transparently.

(b) Proposal to Reduce Management Over-optimism

We support the proposal to require entities to disclose in which reportable segment a cash-generating unit (CGU) containing goodwill is included.

This level of transparency enables stakeholders to better understand and evaluate the assumptions used in the impairment test. Often, management can be overly optimistic in their forecasts, which can affect the reliability of impairment tests.

By linking the CGU to specific segments, stakeholders can more effectively assess the reasonableness of management's assumptions, particularly when these are compared with segment performance and other disclosed information.

However, while this disclosure is useful, simply knowing the segment may not fully address the root causes of over-optimism. To further mitigate this issue, we propose that the IASB encourage or require more explicit disclosures concerning the basis and rationale for key assumptions. Enhanced transparency should include details on how these assumptions align with external market conditions and historical performance, providing a clearer picture of the financial health and strategic direction of the entity.

In summary, CIBA appreciates the IASB's efforts to refine the impairment testing process. The proposed changes aimed at reducing shielding by clarifying the allocation of goodwill are a step in the right direction, as is the effort to curb management over-optimism through enhanced disclosure requirements. However, these changes could be bolstered by more explicit guidance and examples to ensure their effective implementation. We look forward to seeing these improvements lead to more accurate and timely financial reporting.

Question 7—Changes to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)

The IASB is proposing to amend how an entity calculates an asset's value in use. In particular, the IASB proposes:

- to remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance (see paragraphs BC204–BC214).
- to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222).

a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance? Why or why not?
b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?

CIBA Response to Question 7

(a) Removal of Constraints on Cash Flows

CIBA acknowledges the IASB's proposal to permit the inclusion of future cash flows from uncommitted restructuring and enhancements in the value in use (VIU) calculations. This proposal aims to reflect the full potential benefits of assets more accurately.

However, incorporating such speculative future cash flows can significantly increase the risk of subjective estimations, which may lead to less reliable impairment testing results. To mitigate these risks, we recommend implementing a stringent review process for significant future cash flows considered in VIU calculations. This process should verify that such cash flows are based on credible, reasonable, and supportable information, aligning with the entity's operational reality and strategic planning.

Additionally, the standard should clearly distinguish between cash flows derived from an asset's 'current condition' and those from its 'potential condition'. Detailed guidelines on this distinction would help entities apply the standard more consistently, prevent potential misuse of the new rules, and maintain the integrity of financial reporting.

(b) Use of Post-Tax Cash Flows and Discount Rates

CIBA supports the proposal to allow the use of post-tax discount rates and cash flows in calculating value in use (VIU), as it offers entities the flexibility to align their impairment testing process more closely with their internal financial analyses and tax planning strategies.

Allowing both pre-tax and post-tax calculations can suit different tax environments and internal reporting frameworks, which enhances the practical utility of the impairment test. However, this approach introduces additional complexity, particularly in handling taxes and foreign currency translations.

To ensure that the application of this flexibility does not compromise the comparability and consistency of financial reporting across entities, the IASB should provide explicit guidance on the consistent application of chosen methods. This guidance should include how entities should handle deferred taxes and foreign currency cash flows.

Clarifying these areas will help entities reduce variability in practice and ensure that the financial statements faithfully represent the economic realities of the entities.

The proposed changes to IAS 36 could significantly enhance the relevance and accuracy of impairment testing by aligning it more closely with real-world conditions and management expectations. However, the success of these changes hinges on ensuring that they are applied with caution and rigor. CIBA recommends that the IASB provide additional examples and clearer guidelines to support entities in implementing these changes effectively, thereby enhancing the reliability of financial reporting.

Question 8—Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures

The IASB proposes to amend the forthcoming IFRS X Subsidiaries without Public Accountability: Disclosures (Subsidiaries Standard) to require eligible subsidiaries applying the Subsidiaries Standard to disclose:

- information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);
- quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);
- information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and
- information about whether the discount rate used in calculating value in use is pre-tax or post-tax (paragraph 193 of the Subsidiaries Standard). See paragraphs BC252–BC256.

Do you agree with the proposals? Why or why not?

CIBA Response to Question 8

We support the proposal for subsidiaries to disclose the strategic rationale behind business combinations, recognizing the importance of such transparency for stakeholders understanding strategic decisions. However, while quantitative details about expected synergies are beneficial, the practicality and potential burden of these disclosures must be considered. Including both financial and non-financial synergies can provide a more holistic view of the strategic benefits. Therefore, incorporating elements of these synergies into management commentary could enhance understanding without overloading the financial statements with excessive detail.

We agree with the proposal requiring subsidiaries to disclose whether the discount rate used in calculating value in use is pre-tax or post-tax. This is crucial for stakeholders to fully understand the financial metrics and assumptions underpinning the impairment assessments.

Given feedback regarding the potential for excessive disclosure requirements imposing undue burdens on subsidiaries without public accountability, we recommend that the IASB consider the practicality and cost implications of these new requirements. Aligning more closely with existing domestic standards where disclosure requirements are deemed sufficient by local regulators and stakeholders could help mitigate concerns over increased operational costs without substantial benefits.

We want to emphasize the need for a balanced approach that considers the operational realities and potential costs associated with new disclosure requirements. Providing clear, practical guidance on how subsidiaries can effectively integrate these disclosures into their financial reporting will be key to ensuring that the new rules deliver the intended benefits without undue complexity or cost.

Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)

The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263.

Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.

CIBA Response to Question 9

We have reviewed the proposed transition provisions for the amendments to IFRS 3, IAS 36, and the Subsidiaries Standard. We support the IASB's proposal for prospective application from the effective date without restating comparative information. This approach facilitates a smoother transition for entities by avoiding the complexities and costs associated with revising prior periods. It aligns with the practical need to manage changes efficiently while maintaining clarity in financial reporting from the date of adoption forward.

However, we acknowledge concerns about whether the amendments, particularly those related to IAS 36 in goodwill allocation, are mere clarifications or substantive changes. If these are indeed substantive, then there might be implications for how entities have historically allocated goodwill. In such cases, clarifying that these amendments are more than just clarifications could help entities prepare for and implement these changes more effectively. This clarification is crucial as it may impact entities' practices significantly and could lead to different interpretations and applications.

Furthermore, while we agree with the prospective application, consideration should be given to providing specific transitional relief or guidance, especially for first-time adopters who may face significant challenges in aligning past practices with new requirements. Transition relief could include options such as recognizing adjustments in opening retained earnings in the period of adoption rather than impacting prior periods or the profit and loss of the current period. This method would help mitigate the impact of sudden changes in accounting practices on the reported performance of the entity.

To address these concerns, we suggest that the IASB might want to consider more detailed guidance or transitional provisions that aid in implementing these changes, particularly where goodwill allocation and impairment testing practices are expected to change significantly. Providing additional examples or more detailed implementation guidance could also help ensure that the amendments are applied consistently and transparently across entities.

While supporting the prospective application of the amendments, we recommend that the IASB provide clearer definitions on the nature of the amendments and consider transitional relief to ensure that entities can adapt to the changes without undue financial or operational burden.

In conclusion, CIBA appreciates the opportunity to provide feedback on these critical amendments proposed by the IASB. We believe that our responses reflect a thoughtful consideration of both the detailed aspects of the proposed standards and the practical implications for entities worldwide.

As we move forward, we trust that the IASB will consider the insights and recommendations shared by all stakeholders to refine these proposals, ensuring that the standards not only enhance financial reporting but also remain practicable for entities to implement.

CIBA remains committed to engaging in further discussions and providing additional input as needed to support the development of standards that uphold the integrity and transparency of financial reporting across global markets.

Kind regards,

ANNEXURE A: About CIBA

CIBA is a Professional Accountancy Organisation (PAO) and Self-Regulatory Organisation for accountants, tax practitioners, financial managers, and financial directors, in the public and private sector, with offices in South Africa and Namibia. We are associate members of the Pan African Federation of Accountants (PAFA) and full members of the International CFO Alliance (ICFOA). CIBA is authorised to issue designations as registered with the South African Qualifications Authority (SAQA) and our designated members are recognised as accounting officers, independent reviewers, and independent accounting professionals.

CIBA is a statutorily recognised professional accountancy organisation performing a public service in terms of the following empowering legislation:

South Africa

- Recognised Professional Body and Registered Professional Designations: National Qualifications Framework Act 67 of 2008
- Recognised Controlling Body for Tax Practitioners: Section 240A of the Tax Administration Act, 2011
- Professional Accountancy Organisation for Assurance and Non-assurance providers: Regulation 29(4) of the Companies Act, 2008 and Section 60(2) of the Close Corporations Act, 1984.

Namibia

- Professional Accountancy Organisation for Accounting Officers: Section 60(2) of the Close Corporations Act, 1988.

CIBA's objectives are to protect the public interest by adopting and enforcing standards of ethics, conduct, quality, and service engagement standards that seek to ensure the delivery of accountable and transparent professional service by CIBA members.

We do this by offering executive education and continuous professional development (CPD) via our training platform CIBA Academy, technical news updates via accounting weekly and CFO talks, and enforcing ethical conduct through thorough monitoring and disciplinary procedures.

Our brands include:

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